

AR25

FRASER ANNUAL REPORT 1974



Drott Feller Buncher

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FINANCIAL HIGHLIGHTS

FOR THE YEAR:	1974	1973 (Restated)	Percent Change
Net sales	\$158,228,000	\$111,913,000	41
Net results:			
Net earnings from operations	14,892,000	7,753,000	92
Extraordinary item	—	5,916,000	(100)
Total	14,892,000	13,669,000	9
Net earnings per common share:			
From operations	6.35	3.31	92
Extraordinary item	—	2.53	(100)
Total	6.35	5.84	9
Dividends paid	1.40	.60	133
Cash flow from operations	22,581,000	19,293,000	17
Cash flow per common share	9.63	8.24	17
Additions to plants and properties — net	5,886,000	7,310,000	(20)
AT YEAR END:			
Working capital	35,467,000	21,763,000	63
Shareholders' equity	92,746,000	81,054,000	14
Shareholders' equity per common share	39.56	34.63	14

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

RALPH B. BRENNAN
W. R. CLERIHUE
KENNETH V. COX
H. ROY CRABTREE
C. M. FRANTZ
DAVID J. HENNIGAR
C. R. RECOR
FRANK H. SOBEY
A. H. ZIMMERMAN

HONORARY DIRECTORS

AUBREY CRABTREE
L. M. SHERWOOD

EXECUTIVE COMMITTEE

A. H. ZIMMERMAN – Chairman
W. R. CLERIHUE
H. ROY CRABTREE
DAVID J. HENNIGAR
C. R. RECOR

OFFICERS

A. H. ZIMMERMAN
Chairman and Chief Executive Officer
H. ROY CRABTREE
Vice-Chairman of the Board
C. R. RECOR
President
RALPH B. BRENNAN
Senior Vice-President
JOHN P. FISHER
Senior Vice-President – Development
K. GROTTROD
Senior Vice-President – Operations
J. K. BARRY
Vice-President – Marketing
P. M. BELYEA
Vice-President – Woodlands
R. B. FORBES
Vice-President – Purchasing and Traffic
B. W. HICKS
Vice-President and Secretary
M. B. ROBINSON
Vice-President and Treasurer
R. V. OSBORN
*Vice-President – Corporate
Fraser Paper, Limited*
H. H. VALLETTE, Jr.
*Vice-President – Marketing and Planning
Fraser Paper, Limited*
K. L. SEELY
Controller
H. P. HIERLIHY
Assistant Treasurer
D. G. McALARY
Assistant Controller



Board of Directors

left to right, seated are: Ralph B. Brennan, H. Roy Crabtree, C. R. Recor, Frank H. Sobey, A. H. Zimmerman; standing, David J. Hennigar, Kenneth V. Cox, W. R. Clerihue and C. M. Frantz.

DIRECTORS' REPORT TO THE SHAREHOLDERS

As with most pulp and paper companies, Fraser achieved record earnings in 1974 according to the historical cost method of accounting. Earnings from operations amounted to \$6.35 per share or \$14,892,000 on record sales of \$158,228,000. These results compare with the previous record in 1973 of \$7,753,000 or \$3.31 per share, restated, on sales of \$111,913,000. Notwithstanding this satisfying realization of profits on the long-range facilities investments commenced in 1969, this is considered to be a modest result compared to the estimated value of the Company's assets.

With the improvement in earnings the dividend was increased to 30¢ per share for each of the first two quarters and to 40¢ per share for each of the last two quarters, for a total annual payment of \$1.40 per share.

The Directors have been greatly concerned about the impact of inflation, which is not adequately displayed by traditional accounting methods. Briefly put, even at these record earnings levels, the Company is earning less on the real value of its assets than it would if they were sold at that value and the money invested in bonds. This being the case, it is virtually impossible to finance major business opportunities without subsidies large enough to absorb the contingencies inherent in sharply escalating construction costs and interest costs greater than real profit margins. At some point,

Canadian authorities will have to permit tax-free investment reserves and bring construction inflation to at least predictable rates if capital spending is to proceed. To illustrate these points, the Company has included a statement at page 14 which represents its best effort to display real profits after taking account of inflation.

Total shipments for the year of pulp, paper and paperboard at 426,000 tons were slightly ahead of 1973 at substantially improved price levels. As much as these new price levels were welcomed, the margins they produced are being quickly eroded by cost increases, particularly in labour and energy. Limited market pulp sales of 10,500 tons were dictated by the larger than normal internal requirements. The lumber operations of the Company suffered a dismal year of declining prices for total shipments of 46,000 M f.b.m., compared to 50,000 M f.b.m. in 1973.

At year-end Fraser's working capital was \$35,467,000 of which \$23,423,000 was in cash and equivalents. This planned increase in liquidity is essential to the second phase of a major rebuild and pollution control programme which is to be undertaken over the next five years, at a cost in the order of \$100,000,000. As part of this programme, an order has been placed for a refuse burning boiler which will have a favourable impact on both waste disposal and energy costs. Specifications are now

being finalized for a major new recovery boiler which has been planned as part of a continuing programme to enable the Company to meet its environmental obligations at the Edmundston and Madawaska mills.

This expansion and modernization on which the Company's future is based will be financed substantially by internally generated cash flow, supplemented by available Government grants and some long-term financing. Long-term debt markets have recently been almost non-existent which has made capital financing difficult for most companies. The Company is planning to take advantage of favourable borrowing opportunities should any develop over the next two years.

On April 9, 1974 Northwood Mills Limited, a wholly-owned subsidiary of Noranda Mines Limited, acquired a majority of the outstanding shares of the Company. Messrs. W. R. Clerihue, President of Celanese Canada Limited, C. M. Frantz, President of Northwood Mills Limited, and A. H. Zimmerman, Executive Vice-President of Noranda Mines Limited, were elected Directors of the Company. These men replaced Messrs. E. R. Alexander, John E. L. Duquet and A. A. Franck whose combined 29 years' service to the Company are hereby acknowledged with gratitude. On January 29, 1975, the Directors, Officers and all who knew him were saddened by the passing of Mr. Alexander at the age of 71.

Mr. Knut Grotterod and Mr. John P. Fisher have recently been appointed Senior Vice-President, Operations and Senior Vice-President, Development, respectively. With these two appointments and the skilled and able employees at all levels, the Company is well positioned to undertake new and important programmes for future development.

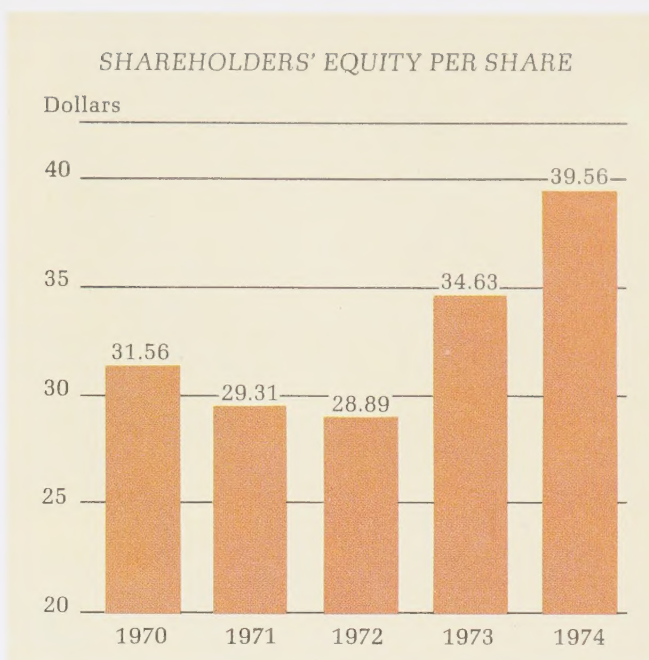
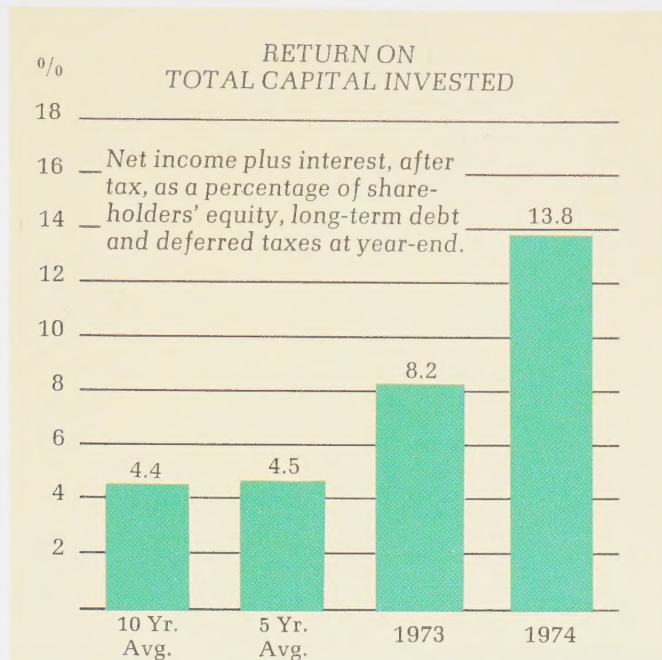
The Company is grateful for the good will and cooperation of its many customers and suppliers throughout the year. The Directors extend their particular thanks to all the employees who helped make this a year of significant achievement.

On behalf of the Board,

Adam H. Zimmerman
Chairman

H. Roy Crabtree
Vice-Chairman

February 24, 1975.



YEAR IN REVIEW

FINANCIAL

It is a pleasure to report that in 1974 the Company had record sales and enjoyed its most profitable year by far, computed in accordance with generally accepted accounting principles. Net sales were \$158,228,000, up 41% over 1973. Net earnings from operations climbed 92% to \$14,892,000 or \$6.35 per share compared with a restated \$7,753,000 or \$3.31 per share in 1973. There was also an extraordinary gain of \$5,916,000 in 1973 applicable to expropriated timberlands.

The Canadian dollar in relation to the U.S. dollar was higher throughout 1974 ranging from just above par to a premium of over 4% at times. Foreign exchange loss amounted to \$3,168,000 for the year. The basis of translation of foreign currencies was changed in 1974 and previously reported financial figures for 1973 have been restated to reflect the change. Full particulars are set forth in notes to the Consolidated Financial Statements.

Surplus funds were invested at attractive rates which were in effect most of the year resulting in interest income of \$2,105,000 for the year. Interest expense on long-term debt was \$497,000.

Cash flow from normal operations in 1974 rose 17% to \$22,581,000 equivalent to \$9.63 per share.

Net additions and improvements to plants and properties amounted to \$5,886,000 after deducting Government grants received of \$1,077,000. In 1973 net additions were \$7,310,000.

Long-term debt was reduced by \$810,000 during the year, and at year-end was equivalent to only 10.5% of shareholders' equity.

During 1974 dividend payments totalled \$3,282,000 or \$1.40 per share compared with \$1,403,000 or 60¢ per share in 1973.

Working capital increased 63% during the year from \$21,763,000 to \$35,467,000. The net cash position improved by \$11,153,000.

OPERATIONS

For the first three quarters of 1974, demand for pulp, paper and paperboard remained exceptionally high in Canada and the United States, weakening only in the fourth quarter, in response to the extremely sharp decline in the level of business activity which was common to all world markets.

The high cost of energy and the procurement of raw materials such as pulp, chemicals and other production requirements were of major concern and, while operations were forced to absorb unprecedented increases in the costs of all purchased materials, full operations were maintained.

Madawaska

Major growth was realized in the operations at the papermills in Madawaska, Maine, where each product line — uncoated bond papers, uncoated lightweight groundwood and coated publication grades — achieved record production and sales.

Shipments from these mills were 383,063 tons and averaged nearly 1,100 tons per day. The total excess of demand over supply permitted optimum scheduling on all machines, and in combination with improved operating efficiencies, was a major factor in achieving this new peak of production.

The programme for the modernization of all paper machines continued throughout the year with a



Back Tender's Friend

number of important projects being completed. These included the activation of a computer control system on No. 1 Machine for basis weight and moisture control; a new rewinder, a re-reeler and pulper in the area of coated and uncoated ground-wood operations; and a reel hardness computer control system on No. 8 Machine. In addition the existing computerized data control system was expanded, resulting in improved order processing, machine scheduling and inventory control.

Edmundston

The maximum capacities of the sulphite and groundwood mills were taxed to meet the demands of the paper and paperboard mills. It was of particular significance that the sulphite mill produced 176,675 tons of pulp, or 3.2% increase over the previous year and a new production record.

Paperboard production at the Edmundston mill reflected the strong demand for boxboard grades in the Canadian market, and shipments of 32,389 tons surpassed the previous high of 31,625 tons achieved in 1973.

Capital expenditures included three additional dryers on the boxboard machine, refinement to pulp screening systems and the construction of improved chip handling facilities.

Atholville

The production of bleached sulphite pulp from this mill was substantially consumed internally to meet pulp requirements of the papermills at Madawaska. Total production was a record 97,800 tons, of which a limited 10,500 tons were available to market. During the year two digesters were relined and a chip handling facility was installed.

WOODLANDS

Wood fiber requirements for the operations of the Company were met through the fullest possible use of available manpower, and an increase in mechanized operations through the addition of two delimbers and two feller bunchers. Inventory levels are adequate for current demand and winter woods operations have been restricted.

A serious outbreak of spruce budworm took place during the past summer, and it has been estimated that nearly 14 million acres of forest land in the Province will be adversely affected. Present plans are to carry on an intensified spraying programme this spring to minimize and control continued infestation by the spruce budworm. In addition the Company intends to conduct salvage cutting operations in the most severely affected areas.

A silvicultural programme is being implemented on the Company's forest land. The programme calls for reforestation of cut-over areas which fail to reproduce naturally, elimination of weed species through herbicide treatments, and the optimum thinning of balsam fir thickets.

The combined production from the new sawmill at Plaster Rock, N.B., and the W. H. Miller division at Kedgwick, N.B. was 51,555 M f.b.m. The severely depressed market for housing in the United States and Canada adversely affected both operations.

CENTRAL RESEARCH

The Company is continuing to place major emphasis on projects related to effluent treatment, improved waste disposal, and recovery of chemicals and by-products. A plan has been developed follow-



Tractor-Trailer Dumping Chips

ing extensive research for the modernization of the Edmundston pulp mill. This plan, which has been approved in principle, is based on a 650-ton per day sulphite operation, with incineration of the spent pulping liquor and full chemical recovery. Research on production of protein yeast from spent sulphite liquor has progressed to the point of animal feeding trials, which will be carried out shortly.

This department continues to work with operations and sales in the development of new products and processes, including the manufacture of improved groundwood pulp, trials for various uncoated groundwood printing papers, and the development of a groundwood content business forms grade. Synthetic sizing was successfully introduced into bond mill paper grades for increased fiber and filler retention at lower cost. Development work on high grease resistant papers and boxboard is being favourably evaluated in the field.

INDUSTRIAL RELATIONS

Contracts covering production, maintenance and technical personnel at Madawaska, Edmundston and Atholville were successfully concluded during the year, as were contracts with the Plaster Rock Woodlands division and one Local in the Restigouche Woodlands division. In September, the Company announced cost of living increases applicable to all employees and subsequently adjustments were made to provide relief to the Company's pensioners.

The year 1974 was one of progress made possible through the efforts of the more than 3,000 men and women of Fraser, and it is a pleasure to convey to these employees the thanks and appreciation of the Company.

SALES AND MARKETING

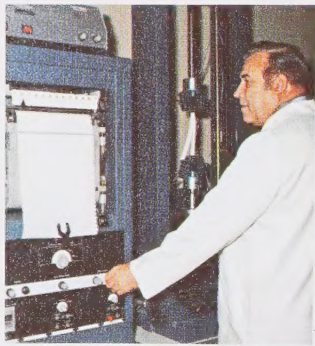
The extended period of heavy demand for all product lines, excepting lumber, enabled the Company to maximize productivity in those areas and grades most suited to its capabilities and potential long-range profitability.

In chemical papers, grade structures were consolidated and a more effective base for expansion was established. In uncoated groundwood, while continuing to effectively serve major accounts, firm positions were created in several new areas. The customer range and product mix in coated groundwood grades were adjusted and strengthened for maximum growth potential. Fraser has concentrated on the lightweight coated market for catalog and magazine production, and the continued and rapid growth in this category of coated papers confirms this commitment.

Paperboard sales to the Canadian market benefitted from optimized running schedules and grade consolidation to achieve record production and sales, at improved revenues commensurate with cost increases. Although there was a downward trend in order receipts in the fourth quarter, the heavy backlogs ensured full operations in the closing months of the year. Elimination of marginal grades and the further development of specialty grades has strengthened our overall position in this market, against increased Canadian production and a heavy growth of competitive imports from U.S. mills.

C. R. Recor
President

FRASER PEOPLE



Recording Paper Tensile Strength



Packaging Paperboard



Lunch Break



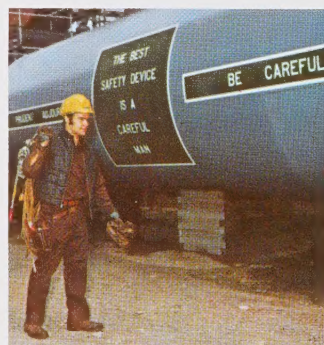
Checking Computer Programme



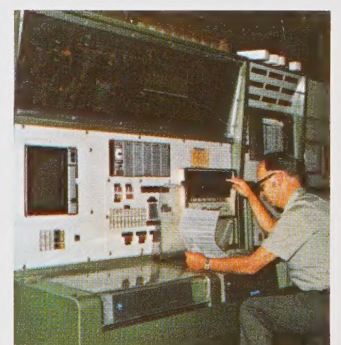
Checking Verifax Communication



Kone Groundwood Feed System



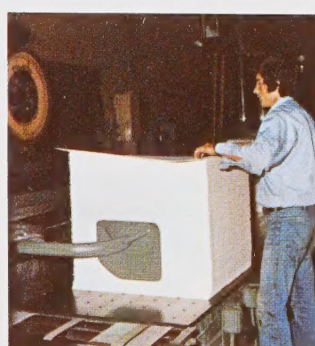
Safety First



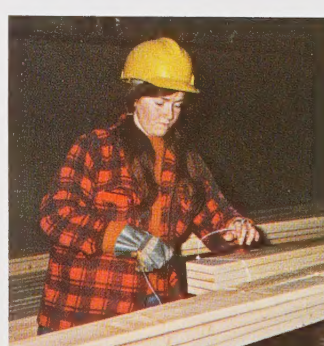
Paper Machine Computer Control Panel



Automatic Stock Preparation Control Panels



Weighing and Baling Market Pulp



Tying-up Lumber Bundles



Adjusting Skidder Grapple

FRASER COMPANIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Year ended December 31 (in thousands of dollars)	1974	1973 (as restated note 5)
Earnings:		
Net sales	\$158,228	\$111,913
Cost of sales	121,104	86,890
Depreciation and depletion	6,796	6,400
Selling, general and administrative expenses	5,665	4,787
	133,565	98,077
	24,663	13,836
Other income (expenses):		
Interest income	2,105	814
Interest on long-term debt	(497)	(547)
Gain (loss) on foreign exchange	(757)	18
Miscellaneous (net)	171	56
	1,022	341
Earnings before income taxes and extraordinary item	25,685	14,177
Taxes on income	10,793	6,424
Earnings before extraordinary item	14,892	7,753
Excess of amount received over net book value of expropriated timberlands (net of income taxes of \$1,015)	—	5,916
Net earnings	\$ 14,892	\$ 13,669
Earnings per Class "A" and Class "B" share:		
Earnings before extraordinary item	\$6.35	\$3.31
Extraordinary item	—	2.53
Net earnings	\$6.35	\$5.84
Retained earnings:		
Balance at beginning of year, as previously reported	\$ 74,017	\$ 61,664
Adjustment relating to translation of foreign currencies (note 5)	1,134	1,221
As restated	75,151	62,885
Net earnings	14,892	13,669
	90,043	76,554
Dividends paid — \$1.40 per share (1973 — \$.60)	3,282	1,403
Balance at end of year	\$ 86,761	\$ 75,151
See accompanying notes to consolidated financial statements.		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (in thousands of dollars)	<u>1974</u>	<u>1973</u> (as restated note 5)
Current assets:		
Cash, short-term deposits and commercial notes	\$ 23,423	\$ 16,195
Accounts receivable	16,122	10,674
Inventories (note 2)	20,684	13,460
Prepaid expenses	224	269
Total current assets	<u>60,453</u>	<u>40,598</u>
Current liabilities:		
Bank indebtedness	—	3,925
Accounts payable and accruals	16,293	11,867
Income taxes payable	7,949	2,293
Bonds due within one year	744	750
Total current liabilities	<u>24,986</u>	<u>18,835</u>
Working capital	35,467	21,763
Account receivable due May 1975	—	996
Due under the Stock Purchase Plan (note 4)	297	319
Fixed assets (note 3)	<u>74,444</u>	<u>75,355</u>
Working capital and other assets employed	<u>110,208</u>	<u>98,433</u>
First Mortgage and Collateral Trust Bonds:		
5 ¹ / ₈ % series due 1976/87 at \$750,000 U.S. per annum (\$9,000,000 U.S.)	9,719	10,529
Deferred taxes on income	<u>7,743</u>	<u>6,850</u>
	<u>17,462</u>	<u>17,379</u>
Shareholders' equity (note 4)	<u>\$ 92,746</u>	<u>\$ 81,054</u>
Represented by:		
Capital stock	\$ 5,985	\$ 5,903
Retained earnings	86,761	75,151
	<u>\$ 92,746</u>	<u>\$ 81,054</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

A. H. Zimmerman, Director

C. R. Recor, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31 (in thousands of dollars)	1974	1973 (as restated note 5)
Source of funds:		
Net earnings	\$ 14,892	\$ 7,753
Add items not requiring expenditure of funds:		
Depreciation and depletion	6,796	6,400
Deferred taxes on income	893	5,140
	22,581	19,293
Long-term receivable now currently due	996	—
Received from the Stock Purchase Plan	105	307
Total funds provided	23,682	19,600
Application of funds:		
Additions and improvements to plants and properties – net	5,886	7,310
Redemption of long-term debt	810	810
Dividends	3,282	1,403
Other	—	55
Total funds used	9,978	9,578
Increase in working capital	13,704	10,022
Working capital at beginning of year	21,763	11,741
Working capital at end of year	\$ 35,467	\$ 21,763

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated statement of financial position of Fraser Companies, Limited and subsidiaries as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, after giving retroactive effect to the change in the basis

of translation of foreign currencies as explained in note 5 and with which we concur, have been applied on a basis consistent with that of the preceding year. The consolidated financial statements for the year ended December 31, 1973 were reported upon by other chartered accountants.

Also, in our opinion, the general price-level restated statement of earnings (column headed "Historical Cost Restated to Reflect Purchasing Power of 1974 Dollar") presented on page 14 has been prepared in accordance with the restatement technique described thereon.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Montreal, Quebec
February 6, 1975

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974

1. ACCOUNTING POLICIES:

The Company follows generally accepted accounting principles and their application, after giving retroactive effect to the change in the basis of translation of foreign currencies referred to in note 5, is consistent with that of the preceding year. A summary of significant accounting policies followed by the Company is set out below.

Basis of presentation of financial statements:

The accompanying financial statements include on a consolidated basis the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Foreign exchange:

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at balance sheet dates for current items and at exchange rates in effect at the transaction dates for non-current assets and liabilities. No recognition is given in the accounts to unrealized gains or losses on long-term debt. Income and expenses are translated at average rates prevailing during the year except for depreciation which is translated at historic rates.

Inventories:

In general, pulpwood and logs, raw materials and supplies are carried at cost or replacement cost whichever is lower. Goods in process and finished products are valued at the lower of cost and net realizable value.

Fixed assets:

The costs of additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense.

Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. At the time of disposal or retirement of plant and property, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss reflected in income.

Buildings, machinery and equipment are depreciated, generally on a straight-line basis, at rates estimated to amortize the cost of each asset over its economic life. Rates in use for the principal classes of such assets are as follows:

Buildings	2 ¹ / ₂ %
Production machinery	6 ¹ / ₄ %
Automotive and mechanized woods equipment	10% to 25%

Logging roads are written off on a straight-line basis over 10 years and amortization of timber limits is determined on a basis related to production.

Research and development:

Research and development expenses are charged against earnings as incurred.

Earnings per share:

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2. INVENTORIES:

	1974	1973
	(\$000's)	(\$000's)
Pulpwood and logs, including advances	\$ 7,340	\$ 3,995
Raw materials and supplies	8,856	6,405
Goods in process and finished products	4,488	3,060
	<u>\$ 20,684</u>	<u>\$ 13,460</u>

3. FIXED ASSETS:

	1974	1973
	(\$000's)	(\$000's)
Plants and properties	\$176,161	\$170,882
Less accumulated depreciation	102,014	95,876
	<u>74,147</u>	<u>75,006</u>
Freehold and leasehold properties	7,939	7,941
Less accumulated depletion	7,642	7,592
	<u>297</u>	<u>349</u>
	<u>\$ 74,444</u>	<u>\$ 75,355</u>

4. SHAREHOLDERS' EQUITY:

Capital stock:

(a) As confirmed by supplementary letters patent dated January 25, 1974, the authorized capital of the Company is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5,000,000 Class "A" Convertible Common Shares
without nominal or par value.

5,000,000 Class "B" Convertible Common Shares
without nominal or par value.

The Class "A" and Class "B" shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class "B" shares be paid out of 1971 capital surplus on hand (as defined in the Income Tax Act).

(b) The issued share capital of the Company at December 31, 1974 was as follows:

Class "A"	2,242,852 shares
Class "B"	<u>101,550</u>
	<u>2,344,402 shares</u>

Pursuant to the provisions of the Stock Purchase Plan whereby shares may be issued for the account of certain employees at the discretion of the directors, 3,750 Class "A" shares were issued to the Trustee during the year for a total consideration of \$82,687 (1973 — 5,850 shares for \$122,034). Payment for the shares issued under the Plan is to be made by the employees in instalments so that the aggregate purchase price will be paid within ten years. At December 31, 1974 the Trustee held 18,045 Class "A" shares as collateral for the unpaid balances aggregating \$367,000 at that date.

Retained earnings:

At December 31, 1974, retained earnings include approximately \$43 million of 1971 capital surplus on hand. It is the intention of the directors, if, as and when dividends may be declared on the Class "B" shares, to deem that such dividends be paid out of this 1971 capital surplus.

5. CHANGE IN BASIS OF TRANSLATION OF FOREIGN CURRENCIES:

Formerly, in consolidating the financial statements of Fraser Paper, Limited, which operates in the United States, with those of the Company, U.S. dollars were expressed as an equal number of Canadian dollars. In 1974, the basis of translating amounts arising in foreign

currencies into Canadian dollars on consolidation was changed to conform to the policy stated above in note 1.

Retained earnings as of January 1, 1974 have been increased by \$1,134,000 and net fixed assets increased by a like amount (cost \$1,572,000 less accumulated depreciation \$438,000) to reflect fixed assets and depreciation since acquisition at historic rates of exchange. Retroactive effect has been given to the change and financial information previously reported for the year ended December 31, 1973 has been restated. Had the policy formerly in effect been continued in the year ended December 31, 1974, earnings for the year would have been approximately \$440,000 more than reported in the accompanying financial statements.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate remuneration to persons who served as directors and officers of Fraser Companies, Limited at any time during the year was as follows:

	1974		1973	
	12	13	12	15
	Directors	Officers	Directors	Officers
Remuneration paid by:				
Fraser Companies, Limited	\$ 39,000	\$230,000	\$ 31,000	\$226,000
Fraser Paper, Limited	—	145,000	—	168,000
	<u>\$ 39,000</u>	<u>\$375,000</u>	<u>\$ 31,000</u>	<u>\$394,000</u>

Four officers (three in 1973) of the Company were also directors.

7. PENSION PLANS:

According to actuarial reports on the Company's pension plans as of December 31, 1973 but giving effect to benefit improvements effected January 1, 1974, there is an unfunded liability of \$3,322,000, due totally to the benefit improvements, which is being amortized by annual payments of \$312,000 for fifteen years as recommended by the actuaries. The Company has made a provision of \$1,100,000 in its 1974 accounts for a possible additional contribution to its pension plans in view of the decline in market value of the assets of the plans.

At December 31, 1974, commitments for capital expenditures amounted to approximately \$4 million.

THE IMPACT OF INFLATION

The statement set out below has been prepared to reflect the changes in the purchasing power of the dollar which has been substantially reduced as a result of sustained inflation. A debate is currently in process over the techniques to be used to develop

such a statement, however, Fraser is using the Consumer Price Index and inflation accounting procedures in the guideline issued by the Canadian Institute of Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1974
(in thousands of dollars)

	Historical Cost	Historical Cost Restated to Reflect Purchasing Power of 1974 Dollar
Net sales	\$158,228	\$166,931
Cost of sales, selling, general and administrative expenses	126,769	135,170
Depreciation and depletion	6,796	9,802
	<u>133,565</u>	<u>144,972</u>
	24,663	21,959
Other income and expense (net)	<u>1,022</u>	<u>1,071</u>
Earnings before income taxes	25,685	23,030
Taxes on income	<u>10,793</u>	<u>11,387</u>
Net earnings	\$ 14,892	\$ 11,643
Per common share	\$ 6.35	\$ 4.96
Return on total capital invested	<u>13.8%</u>	<u>8.7%</u>

The above statement reflects only the changes in the general purchasing power of the dollar and does not reflect current values of assets in use because construction costs have inflated far more than consumer prices. Consequently, the statement does not display the full impact of inflation on earnings and return on investment. The consolidated assets of the Company are estimated to have a current replacement value in excess of \$350 million. If this value were used in determining depreciation

charges, the above restated net earnings would be reduced by a further \$2.4 million to approximately \$9.2 million, lowering the return on total capital invested to 4.2%.

This is a complex problem but it does demonstrate that present rates of return cannot attract new investment to finance new productive capabilities, and present depreciation allowances permit insufficient build-up of internal cash reserves.

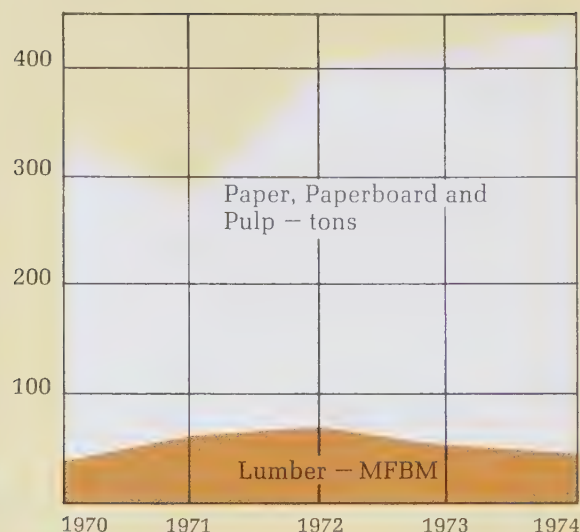


MAP OF OPERATIONS



PRODUCTS SOLD

Thousands



DISTRIBUTION OF THE 1974 SALES DOLLAR

TO OUTSIDERS
for pulpwood, materials,
supplies and services

TO EMPLOYEES
for wages, salaries
and benefits

FOR ENERGY

FOR TAXES
federal, provincial,
state and local

**FOR DEPRECIATION
& DEPLETION**

TO SHAREHOLDERS
by dividends as a return
on their investment

THIS LEFT
for use as working capital and
for plant improvement and
expansion

TEN YEAR COMPARISON

FOR THE YEAR

1974

SALES AND EARNINGS DATA (\$000's)

Net sales	\$ 158,228
U.S. exchange gain (loss)	(3,168)
Interest on long-term debt	497
Depreciation and depletion	6,796
Selling, general and administrative expenses	5,665
Taxes on income	10,793
Net earnings (loss) from operations	14,892
Extraordinary items (net)	—
Net earnings for the year	14,892

FINANCIAL POSITION DATA (\$100's)

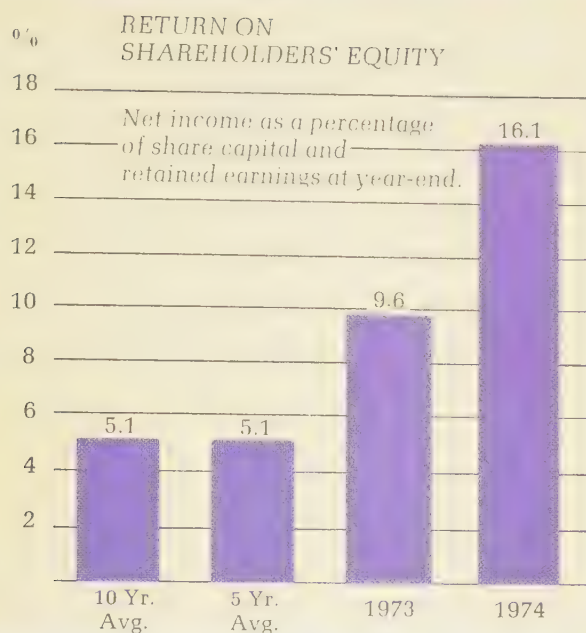
Working capital	35,467
Cash flow from operations	22,581
Net additions to plants and properties	5,886
Bond debt at end of year	10,463
Deferred taxes on income	7,743

OTHER FINANCIAL DATA

Net earnings (loss) from operations per share	6.35
Extraordinary items (net) per share	—
Net earnings for the year per share	6.35
Dividends per share	1.40
Cash flow from operations per share	9.63
Common shareholders' equity per share	39.56
Common shares outstanding at end of year	2,344,402
Return on total assets - %	11.2
Return on shareholders' equity - %	16.1

QUANTITIES SOLD

Paper - tons	383,063
Paperboard - tons	32,389
Pulp - tons	10,533
Lumber - M f.b.m.	46,190



NOTES AND EXPLANATIONS

A. Major Changes in Plants and Properties:

- 1967 — Catalogue coater at Madawaska, Maine.
- 1968 — Acquired W. H. Miller Company, Limited's sawmill at Kedgwick, N.B.
- 1969 — Sawmill at Kedgwick partially destroyed by fire and new mill constructed.
 - Sold investment in Rothesay Paper Corporation.
 - The Province of Quebec expropriated the Company's timber limits and freehold lands in that Province.
- 1970 — Sold all of the fixed assets of the Newcastle kraft pulpmill and its related Woods division
 - New groundwood pulpmill and woodroom at Edmundston, N.B.
- 1971 — No. 8 paper machine at Madawaska, Maine.
- 1972 — Primary and secondary effluent treatment facilities at Edmundston, N.B.
- 1974 — New sawmill and chipping plant at Plaster Rock, N.B.

B. Accounting Policy Changes:

1. In 1967, the Company adopted the straight-line method of computing depreciation. Prior years' figures have not been restated for this change.
2. Commencing in 1969, the Company adopted the policy of including in other income the gains resulting from routine and recurring asset disposals. Prior years' figures have been restated to reflect this change.
3. In 1974, the basis of translating foreign currencies was changed. Prior years' figures have been restated for net additions to plants and properties, depreciation and gain or loss on foreign exchange.

	1973	1972	1971	1970	1969	1968	1967	1966	1965
\$	111,913	\$ 90,926	\$ 62,639	\$ 73,730	\$ 91,327	\$ 76,568	\$ 70,681	\$ 72,412	\$ 66,586
	18	(382)	372	1,456	3,771	3,169	2,929	3,095	2,957
	547	583	622	661	714	735	769	395	21
	6,400	6,294	5,272	3,801	5,836	5,890	5,502	6,567	5,018
	4,787	4,450	5,244	5,673	4,936	3,716	3,640	4,079	4,631
	6,424	(685)	(5,648)	811	1,993	322	—	1,642	3,499
	7,753	(751)	(4,856)	2,614	4,403	1,161	127	3,680	5,811
	5,916	—	—	6,807	1,933	—	579	—	—
	13,669	(751)	(4,856)	9,421	6,336	1,161	706	3,680	5,811
	21,763	11,741	6,965	25,339	23,186	19,876	15,711	15,941	29,007
	19,293	4,765	(4,349)	6,638	12,070	7,315	6,167	11,279	14,693
	7,310	1,909	14,785	40,243	10,608	2,609	4,168	19,917	22,043
	11,279	12,089	12,899	13,716	14,579	15,389	16,199	16,199	16,549
	6,850	1,710	2,427	7,131	8,859	6,991	6,691	6,691	5,321
	3.31	(0.32)	(2.08)	1.12	1.90	0.50	0.06	1.65	2.61
	2.53	—	—	2.92	0.83	—	0.26	—	—
	5.84	(0.32)	(2.08)	4.04	2.73	0.50	0.32	1.65	2.61
	0.60	0.10	0.15	0.90	0.65	0.10	0.60	1.40	1.40
	8.24	2.04	(1.86)	2.85	5.20	3.18	2.77	5.07	6.60
	34.63	28.89	29.31	31.56	28.45	26.41	26.44	26.73	26.47
	2,340,652	2,334,802	2,334,302	2,331,802	2,320,952	2,300,202	2,226,102	2,226,102	2,226,102
	6.9	(0.3)	(4.6)	3.1	5.0	2.1	1.0	4.2	6.6
	9.6	(1.1)	(7.1)	3.6	6.7	1.9	0.2	6.2	9.9
	363,144	322,771	195,049	221,278	241,734	212,306	203,243	215,313	202,956
	31,625	29,118	28,154	27,505	27,998	24,053	24,407	24,369	22,298
	20,229	49,151	50,255	88,387	211,058	180,463	128,731	120,831	102,276
	49,774	57,153	52,507	39,016	33,033	20,616	27,435	26,781	30,337

OFFICES, PLANTS AND PRODUCTS

FRASER LUMBER

Mills:

Plaster Rock, New Brunswick
W. H. Miller Company, Limited
Kedgwick, New Brunswick
(a wholly-owned subsidiary)

Product:

Eastern Canadian Spruce

End Use:

Residential and commercial buildings

Market:

Eastern Canada and Eastern
United States

Sales Office:

Edmundston, New Brunswick E3V 1S9

FRASER PULP

Mills:

Atholville and Edmundston,
New Brunswick

Products:

Bleached and unbleached softwood
sulphite, and groundwood

Market:

North America and overseas

Sales Offices:

Edmundston, New Brunswick E3V 1S9

1 Place Ville Marie,
Montreal, Quebec H3B 2C3

FRASER PAPERBOARD

Mill:

Edmundston, New Brunswick

Products:

Coated and uncoated folding boxboard

End Uses:

Packaging for food, detergents,
cigarettes, frozen foods, pharmaceu-
ticals, pet foods, etc.

Market:

Canada

Sales Offices:

1 Place Ville Marie,
Montreal, Quebec H3B 2C3

600 The East Mall,
Islington, Ontario M9B 4B1

FRASER PAPER

Mills:

Fraser Paper, Limited
Madawaska, Maine
(a wholly-owned subsidiary)

Bond and Writing Papers:

Five paper machines

Groundwood Printing Papers:

Three paper machines and one
off-machine blade coater

End Uses:

Papers for converting specialties,
commercial printing,
coated and uncoated publications,
directories and catalogues

Market:

United States

Sales Offices:

2 Greenwich Plaza,
Greenwich, Conn. 06830

2300 East Devon Avenue,
Des Plaines, Illinois 60018



Logma Delimber

STOCK TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Montreal, P.Q., Toronto, Ontario
Vancouver, B.C., Saint John, N.B.

STOCK LISTED

Montreal Stock Exchange
Toronto Stock Exchange

THE ANNUAL GENERAL MEETING

of the shareholders of Fraser Companies,
Limited will be held at the general office of the
Company at Edmundston, N.B., on Monday,
April 21, 1975, at the hour of ten o'clock in the
forenoon, Atlantic Standard Time.



Fraser Companies, Limited
Edmundston, N.B.

MARCH 5 1974

**NOTICE OF ANNUAL GENERAL MEETING
OF SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of shareholders of Fraser Companies, Limited will be held at the general office of the Company in Edmundston, New Brunswick, Canada, on Friday, the 19th day of April, 1974, at the hour of ten o'clock in the forenoon, Atlantic Standard Time, for the following purposes, that is to say:

To receive and consider the annual report of the directors, the financial statements of the Company and the auditors' report for the fiscal year ended December 31, 1973;

To elect directors for the ensuing year;

To appoint auditors and to fix or to authorize the Board of Directors to fix their remuneration; and

To transact such other business as may properly come before the said Meeting.

If you are unable to attend in person, will you please date, complete, sign and return the enclosed instrument of proxy in the envelope provided for that purpose.

By Order of the Board of Directors,

B. W. HICKS,
Vice-President and Secretary.

March 1, 1974

INFORMATION CIRCULAR

(dated as of March 1, 1974)

This Information Circular is furnished in connection with the solicitation of proxies for use at the Annual General Meeting of shareholders of Fraser Companies, Limited (hereinafter called "the Company") to be held at the general office of the Company, Edmundston, New Brunswick, Canada, on Friday, April 19, 1974, and at any adjournment thereof. In the event that you are unable to attend the meeting personally, you are requested to date, complete and sign the accompanying instrument of proxy and to return the same to the Company in time for use at the meeting. An addressed envelope with postage prepaid accompanies this Information Circular and may be used for such purpose.

Right of Revocation

A shareholder giving an instrument of proxy may revoke the same by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the Head Office of the Company, Plaster Rock, New Brunswick, or the general office of the Company, Edmundston, New Brunswick, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

Solicitation of Proxies

The enclosed instrument of proxy is solicited by the management of the Company. The management does not contemplate a solicitation of proxies otherwise than by use of the mails. The cost of solicitation will be borne by the Company.

Voting Shares and Principal Holders Thereof

There are outstanding 2,262,385 Class "A" Convertible Common Shares without nominal or par value (hereinafter called Class "A" Shares) and 78,767 Class "B" Convertible Common Shares without nominal or par value (hereinafter called Class "B" Shares) of the capital stock of the Company. Each Class "A" Share and each Class "B" Share entitles the holder thereof to one (1) vote per share.

The holders of Class "A" Shares and the holders of Class "B" Shares will be entitled to vote at the meeting and at any adjournment thereof if present or represented by proxy thereat.

Genstar Investment Limited (and its affiliates), The Harold Crabtree Foundation and Scotia Investments Limited (and its affiliates), the holders of Class "A" Shares or Class "B" Shares, as the case may be, are each holders of equity shares of the Company carrying more than 10% of the voting rights attached to all equity shares of the Company. Genstar Investment Limited (and its affiliates) holds 302,305 equity shares, The Harold Crabtree Foundation holds 290,000 equity shares and Scotia Investments Limited (and its affiliates) holds 283,000 equity shares, representing 12.91%, 12.39% and 12.09% respectively of the outstanding equity shares.

Election of Directors

The By-laws of the Company provide that the Board of Directors of the Company shall consist of nine (9) directors to be elected annually. The term of office of each director so elected expires upon the election of his successor unless he shall resign or his office becomes vacant by death, removal or other cause.

The following persons are proposed to be nominated for election as directors of the Company:

<u>Nominees for Directors and Principal Occupation</u>	<u>Period of Service as Director</u>	<u>Approximate Number of Equity Shares of the Company Beneficially Owned, Directly and Indirectly</u>
E. R. Alexander, Chairman of the Finance Committee of the Company, Trustee of the Stock Purchase Plan of the Company; Vice-Chairman of the Board of Gaz Métropolitain Inc. (Natural Gas Company).	1960 to date	1,200 Class "B" Shares
Ralph B. Brennan, Senior Vice-President of the Company; Chairman of the Board of G. E. Barbour Co. Ltd. (Manufacturer and Distributor of Food Products).	1954 to date	11,225 Class "A" Shares
Kenneth V. Cox, Trustee of the Stock Purchase Plan of the Company; President of the New Brunswick Telephone Company, Limited (Public Utility).	1969 to date	200 Class "A" Shares
H. Roy Crabtree, ⁽¹⁾ Chairman of the Board of the Company, Member of the Finance Committee of the Company, Trustee of the Stock Purchase Plan of the Company; Chairman and President of Wabasso Limited (Manufacturer of Textiles).	1956 to date	81,225 Class "A" Shares 30,400 Class "B" Shares
John E. L. Duquet, Q.C., Senior Partner of Duquet, MacKay, Weldon, Bronstetter & Thivierge (Advocates, Barristers and Solicitors).	1963 to date	100 Class "A" Shares
A. A. Franck, Member of the Finance Committee of the Company; Chairman and Chief Executive Officer of Genstar Limited (a diversified and multi-industrial product company in Canada and the United States).	1966 to date	1 Class "A" Share
David J. Hennigar, Member of the Finance Committee of the Company; Atlantic Regional Director of Burns Bros. and Denton Limited (Investment Dealers).	1969 to date	200 Class "B" Shares
C. R. Recor, President of the Company, Member of the Finance Committee of the Company.	1972 to date	3,910 Class "A" Shares
Frank H. Sobey, Chairman of Sobey Stores Limited (Retailer of Food Products).	1963 to date	170,534 Class "A" Shares

(1) Mr. Crabtree's "associates" own 311,569 Class "A" Shares, of which Wabasso Limited and The Harold Crabtree Foundation own 21,104 Class "A" Shares and 290,000 Class "A" Shares respectively.

Remuneration of Directors and Officers

The following information as to the aggregate direct remuneration paid during the last completed financial year of the Company ended December 31, 1973, to the directors and officers of the Company, and to such officers by Fraser Paper, Limited, a subsidiary of the Company;

Aggregate direct remuneration paid by the Company:

To the directors as such	\$ 30,850
To the officers as such	\$224,622
Aggregate direct remuneration paid by Fraser Paper, Limited to such officers as such	\$159,455
Estimated aggregate cost to the Company and its subsidiaries of all pension benefits	\$ 22,166
Aggregate amount of all remuneration payments other than payments reported above, proposed to be made in the future by the Company and its subsidiaries pursuant to existing arrangements	\$ 10,417

No director, officer, proposed nominee for election as a director or associate of any of the foregoing is or has been indebted to the Company or its subsidiaries at any time since the beginning of the last completed financial year of the Company. Under the Stock Purchase Plan of Fraser Companies, Limited dated as of July 2nd, 1968, the Company provided moneys to trustees with which to purchase Common Shares of the Company which are held for the benefit of certain employees of the Company upon the exercise of their rights. The aggregate amount owing by such employees to the trustees as at the date of this Information Circular, was \$398,744.97 of which approximately \$138,275.30 was owing by employees who were directors and/or officers of the Company.

The following information as to the grant of rights to purchase Common Shares of the Company and the exercise thereof is given for the period since the commencement of the last completed financial year of the Company ended December 31, 1973, with respect to the directors and officers of the Company as a group.

Date of Grant (1)	Date of Exercise (1)	Number of Common Shares	Purchase Price per Share	Price Range (2) High Low	
April 13, 1973		250	\$20.70	23	21½
	May 10, 1973	250	\$20.70	23⅞	20
September 27, 1973		300	\$21.38	24	21¼
	October 12, 1973	300	\$21.38	25	22½
September 27, 1973		2,000	\$21.38	24	21¼
	October 26, 1973	2,000	\$21.38	25	23¾
September 27, 1973		1,000	\$21.38	24	21¼
November 23, 1973		250	\$20.48	26	23⅞
	December 6, 1973	250	\$20.48	25¾	21
January 31, 1974		500	\$22.05	23¾	20½
	February 12, 1974	500	\$22.05	23¾	21¼

(1) The rights to purchase were granted and where applicable exercised pursuant to the Company's Stock Purchase Plan dated as of July 2nd, 1968.

(2) Price Range of Common Shares on Montreal Stock Exchange for thirty days preceding the date of grant or date of purchase.

Appointment of Auditors

Messrs. Touche Ross & Co. are the auditors of the Company and have held such position for a period in excess of the preceding five years. It is proposed by the management of the Company that such firm be reappointed the auditors of the Company.

Designation of Proxy

The persons named in the enclosed instrument of proxy have indicated to the Company their willingness to represent as proxy shareholders desiring to so appoint them. **If, however, a shareholder desires to appoint as proxy a person other than those designated, he should insert the name of his representative in the space provided therefor.** A person acting as proxy need not be a shareholder of the Company.

Voting of Shares Represented by Management Proxy

The shares represented by the instrument of proxy will be voted or withheld from voting, as the case may be, on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter for which a choice is provided, such shares shall be voted or withheld from voting in accordance with the specifications so made. Where a choice is not specified by the means provided in the instrument of proxy, **it is intended that the shares represented by the instrument of proxy in each such case will be voted in favour of each such matter.**

The enclosed instrument of proxy confers discretionary authority with respect to amendments or variations to matters identified in the Notice of meeting, or other matters that may properly come before the Annual General Meeting. The management is not aware that any such amendments, variations or other matters are to be presented for action at such meeting.

By Order of the Board of Directors,
B. W. HICKS,
Vice-President and Secretary.

FRASER COMPANIES, LIMITED

General and Executive Offices
Edmundston, New Brunswick

Edmundston, N. B. — sulphite and groundwood
pulp mills, sulphite and kraft bleaching
plants, and paperboard mill

Atholville, N. B. — bleached sulphite pulp mill

Plaster Rock, N. B. — lumber mill, dressing
mill and dry kiln

FRASER PAPER, LIMITED

(Subsidiary Company)

Madawaska, Maine — paper mills manufac-
turing high grade papers from chemical
and groundwood pulps

W. H. MILLER COMPANY, LIMITED

(Subsidiary Company)

Kedgwick, N. B. — lumber mill, dressing
mill and dry kiln

AR25



FRASER

REPORT TO THE SHAREHOLDERS OF
FRASER COMPANIES, LIMITED
FOR SIX MONTHS ENDED
JUNE 30, 1974

TO THE SHAREHOLDERS:

Business conditions have been good during the first six months of 1974 enabling us to report continued progress by your Company. Net income from operations for the six months ended June 30, 1974 increased to \$5,856,000 or \$2.50 per share from \$2,645,000 or \$1.13 per share last year.

Our improved results are mainly attributable to healthy order backlogs which allowed near-capacity production and sales of paper and paperboard at more realistic prices.

While present earnings appear high, they are being compared with several prior years of depressed earnings with losses in two years. Also current earnings are actually much lower in "real" terms due to inflation. A major distortion occurs in depreciation charges based on original costs which bear little relation to current replacement costs. Depreciation charges based on estimated replacement values would reduce net income by approximately \$1,850,000.

New two-year Labour Agreements have been concluded for the employees at the Madawaska Mills, and for the Woodlands scalers and clerks in the Restigouche Division and the woodworkers in the Plaster Rock Woods Division. The new woodworkers' rate structure has also been applied to the Edmundston and Restigouche Woods Divisions, with the termination dates for these Labour Agreements being extended one year.

A dividend of 30¢ per share on the Class "A" and Class "B" Convertible Common Shares was paid on June 28, 1974.

On June 26, 1974 a dividend of 40¢ per share was declared on the Class "A" and Class "B" Convertible Common Shares payable September 27, 1974 to shareholders of record September 6, 1974.

While there are question marks in attempting to look ahead, a favourable demand-supply situation for our major products is expected to exist for the foreseeable future. Rapid cost escalation is continuing in all sectors, and certain raw materials and commodities are in tight supply. However, barring any major upset, the prospects for the rest of 1974 are promising.

C. R. Recor,
President.

Edmundston, N. B.
July 31, 1974.

FRASER COMPANIES, LIMITED AND SUBSIDIARIES

	Six Months Ended June 30 1974	Six Months Ended June 30, 1973
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)		
Net sales	\$75,613,000	\$53,272,000
Cost of sales	58,423,000	42,816,000
Depreciation and depletion	3,089,000	2,928,000
Selling, general and administrative expense	2,518,000	2,311,000
	<u>64,030,000</u>	<u>48,055,000</u>
	11,583,000	5,217,000
Other income (expense):		
Interest income	826,000	157,000
Interest on long term debt	(260,000)	(278,000)
U.S. exchange gain (loss)	(1,653,000)	(63,000)
Miscellaneous - net	108,000	54,000
	<u>(979,000)</u>	<u>(130,000)</u>
Income before taxes	10,604,000	5,087,000
Provision for taxes on income	4,748,000	2,442,000
Net income	<u>\$ 5,856,000</u>	<u>\$ 2,645,000</u>
Net income per share	<u>\$2.50</u>	<u>\$1.13</u>

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

SOURCE

Net income	\$ 5,856,000	\$ 2,645,000
Depreciation and depletion	3,089,000	2,928,000
Deferred taxes on income	491,000	2,442,000
Cash flow from operations	<u>9,436,000</u>	<u>8,015,000</u>
Payment on account for expropriation of timber limits	996,000	1,000,000
Received from stock purchase plan	29,000	23,000
	<u>\$10,461,000</u>	<u>\$ 9,038,000</u>

APPLICATION

Net additions and improvements to plants and properties ..	\$ 2,424,000	\$ 1,285,000
Bonds redeemed	810,000	810,000
Dividends	1,407,000	351,000
Deferred charges	89,000	209,000
	<u>4,730,000</u>	<u>2,655,000</u>
Working capital increased	<u>5,731,000</u>	<u>6,383,000</u>
	<u>\$10,461,000</u>	<u>\$ 9,038,000</u>